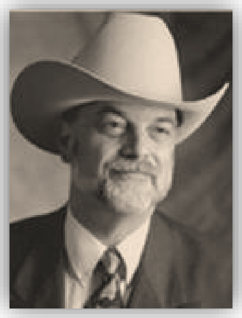

THE PERSONAL WEALTH COACH®

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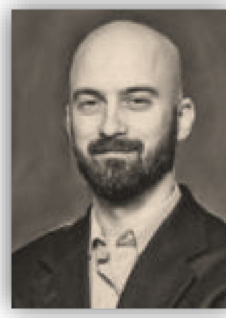

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June 16, 2023

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX), or as some say, "Mr. Market" turned in a stellar week ending on June 16. The SPX rose a very respectable 2.58% for the week closing at 4409.59, moving to a gain so far this year of 14.85%, up over 23% since last October, and an impressive 39% from three years ago. Of course, we do need to mention that it is still down 8% from its high point at the beginning of 2022. Our other followed index, the CRSP US Mid Cap Value Index (where none of the market-distorting big tech companies are to be found) rose 2.22% to 2364.79 for the week, suggesting that the rise in the market we have seen recently is broad based. That index is now up about 1% this year and remains down about 9% from its high in January of 2022.

The benchmark 10-year U.S. Treasury note ended the week with a yield of 3.77%, comfortably within the trading range we have seen this year. Shorter term Treasury yields remain higher with everything shorter than a one-year maturity yielding well above 5%. To illustrate how inverted the Treasury yield curve is, the 1-month T-bill was yielding 5.18% while a 30-year Treasury bond yielded only 3.86%. At least for interest rates, the world has indeed turned upside down. West Texas Intermediate crude oil (WTI), like the Treasury market, rose just a bit to $71.71 but it too is in a trading range that has been in place all this year.

The Economy

For those who love economic numbers on government reports, it was an exciting week. First the Labor department came out with their monthly Consumer Price Index (CPI) figures. The bottom line 12-month CPI for the U.S. was 4.0%, still a number too high for the Fed or about anyone else, but only half of what we saw a year ago. Even better, if we take the inflation numbers for "shelter" out of the equation, the one-month CPI was only 0.1% and for the full 12-months was only 2.1%. In other words, the always slow changing numbers for rents and equivalent home rental value for those who own homes is about the only thing that is still driving the numbers higher at an unacceptable rate. Unfortunately, the factor that has reduced the CPI to acceptable levels when it is averaged together is the price of energy, which has declined a huge 11.7% in the last year and was down 1.2% last month. The bright side to that is that the cost of energy tends to filter through to quite literally everything else because for things to be sold at any price they must be moved from where they were to the point of sale and that involves an energy cost.

The CPI report was a great prelude to the much-expected announcement by the Federal Reserve Board of Governors (the Fed) that they were not going to raise short term interest rates this month. That good news was tempered by the warning that they were leaning toward raising rates next month and at some point, yet another 0.25%. That second bit of news was wrapped in Chairman Powell's caveat that they would wait to see the data that comes in during the next couple of months to make a final decision on increasing rates or just leaving them where they are. Once more, Powell firmly stated that interest rates were likely to remain higher, longer than most market participants were thinking. Given the accuracy of his forecasts over the last year or more, that message bears listening to.

There was another takeaway from Chairman Powell's news conference that most pundits seem to have not noticed. In past announcements he has emphasized that the prime target of the rate increases was the jobs market. In this one he not only omitted that emphasis, but seemed to be saying that was no longer the target. Instead, he suggested that the key to halting the climb in interest rates would be that services prices would stabilize. In fact, in this announcement he said, "I do not think that wages are the principal driver of inflation." That means that we need not have a recession with the jobless rate rising to satisfy the Fed.

The Commerce department then came out on Thursday with the report that retail sales rose a seasonally adjusted 0.3% in May, a good healthy number. Our Gross Domestic Product is about 64% driven by consumer spending and consumer spending is the best indicator of whether the U.S. economy is growing or contracting. At the same time the Fed released data that showed that cash and cash equivalents held by US households were equal to 64% of our GDP. Prior to the pandemic household cash holdings were around 57%. In other words, US households still have plenty of money to spend and an average good reserve to boot! Consumer surveys this year have consistently been negative about the short-term economic future, but such surveys are historically very unreliable. The best way to determine what the American consumer thinks about the future is to note whether they are spending their money or saving it. They are spending, so they are optimistic, no matter what they say in response to surveys.

Until next week, just know that we are here for you, hard at work in an endless effort to provide the best possible service, fiduciary investment and financial advice and portfolio management.

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